

PERAC AUDIT REPORT



Stoneham

Contributory Retirement System



JAN. 1, 2011 - DEC. 31, 2013



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. MCCARTHY

March 10, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Stoneham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Stoneham Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2013	2012	2011
Net Assets Available For Benefits:			
Cash	\$168,352	\$97,740	\$26,401
PRIT Cash Fund	130,041	120,077	140,066
PRIT Core Fund	69,531,856	59,893,972	54,455,655
Prepaid Expenses	0	0	673
Accounts Receivable	62,754	2,118,337	2,192,676
Accounts Payable	(1,306)	(1,541)	(13,823)
Total	<u>\$69,891,696</u>	<u>\$62,228,585</u>	<u>\$56,801,647</u>
Fund Balances:			
Annuity Savings Fund	\$13,612,422	\$12,456,976	\$11,922,418
Annuity Reserve Fund	4,990,158	5,701,701	5,989,643
Pension Fund	459,976	377,494	430,037
Military Service Fund	36,199	33,595	31,190
Expense Fund	0	0	0
Pension Reserve Fund	<u>50,792,941</u>	<u>43,658,819</u>	<u>38,428,359</u>
Total	<u>\$69,891,696</u>	<u>\$62,228,585</u>	<u>\$56,801,647</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$12,002,419	\$5,832,662	\$0	\$27,562	\$0	\$40,736,788	\$58,599,431
Receipts	1,182,901	177,743	4,545,541	3,628	480,608	(528,893)	5,861,528
Interfund Transfers	(949,948)	949,948	1,779,535	0	0	(1,779,535)	0
Disbursements	(312,954)	(970,710)	(5,895,039)	0	(480,608)	0	(7,659,312)
Ending Balance (2011)	11,922,418	5,989,643	430,037	31,190	0	38,428,359	56,801,647
Receipts	1,382,989	172,774	4,541,619	2,404	514,948	6,774,572	13,389,305
Interfund Transfers	(555,686)	555,763	1,544,036	0	0	(1,544,112)	0
Disbursements	(292,743)	(1,016,478)	(6,138,198)	0	(514,948)	0	(7,962,368)
Ending Balance (2012)	12,456,976	5,701,701	377,494	33,595	0	43,658,819	62,228,585
Receipts	1,500,740	161,015	4,925,457	2,604	581,466	8,520,034	15,691,315
Interfund Transfers	(173,288)	173,288	1,385,912	0	0	(1,385,912)	0
Disbursements	(172,006)	(1,045,846)	(6,228,886)	0	(581,466)	0	(8,028,204)
Ending Balance (2013)	\$13,612,422	\$4,990,158	\$459,976	\$36,199	\$0	\$50,792,941	\$69,891,696

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Annuity Savings Fund:			
Members Deductions	\$1,206,963	\$1,142,428	\$1,072,167
Transfers from Other Systems	113,073	199,379	58,120
Member Make Up Payments and Re-deposits	113,996	10,390	1,159
Member Payments from Rollovers	49,402	18,652	12,754
Investment Income Credited to Member Accounts	17,306	12,140	38,701
Sub Total	<u>1,500,740</u>	<u>1,382,989</u>	<u>1,182,901</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	161,015	172,774	177,743
Sub Total	<u>161,015</u>	<u>172,774</u>	<u>177,743</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	194,645	144,964	136,743
Pension Fund Appropriation	179,634	144,005	152,620
Settlement of Workers' Compensation Claims	4,551,178	4,251,178	4,251,178
Recovery of 91A Overearnings	0	0	5,000
Sub Total	<u>4,925,457</u>	<u>4,541,619</u>	<u>4,545,541</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	2,556	2,373	3,573
Investment Income Credited to the Military Service Fund	48	31	55
Sub Total	<u>2,604</u>	<u>2,404</u>	<u>3,628</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	581,466	514,948	480,608
Sub Total	<u>581,466</u>	<u>514,948</u>	<u>480,608</u>
Pension Reserve Fund:			
Interest Not Refunded	3,439	0	6,009
Miscellaneous Income	49	0	0
Excess Investment Income (Loss)	8,516,547	6,774,572	(534,902)
Sub Total	<u>8,520,034</u>	<u>6,774,572</u>	<u>(528,893)</u>
Total Receipts, Net	<u>\$15,691,315</u>	<u>\$13,389,305</u>	<u>\$5,861,528</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	\$29,455	\$121,176	\$174,480
Transfers to Other Systems	<u>142,551</u>	<u>171,567</u>	<u>138,475</u>
Sub Total	<u>172,006</u>	<u>292,743</u>	<u>312,954</u>
Annuity Reserve Fund:			
Annuities Paid	1,037,021	1,012,214	970,710
Option B Refunds	<u>8,825</u>	<u>4,264</u>	<u>0</u>
Sub Total	<u>1,045,846</u>	<u>1,016,478</u>	<u>970,710</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,277,691	4,201,423	4,046,316
Survivorship Payments	354,553	358,001	331,578
Ordinary Disability Payments	70,758	70,572	69,012
Accidental Disability Payments	706,569	698,380	656,892
Accidental Death Payments	357,700	360,213	355,338
Section 101 Benefits	12,761	49,153	44,316
3 (8) (c) Reimbursements to Other Systems	269,221	256,451	238,967
State Reimbursable COLA's Paid	<u>179,634</u>	<u>144,005</u>	<u>152,620</u>
Sub Total	<u>6,228,886</u>	<u>6,138,198</u>	<u>5,895,039</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	142,590	137,464	132,020
Legal Expenses	26,392	33,303	29,449
Travel Expenses	2,957	2,718	2,658
Administrative Expenses	5,537	2,381	4,883
Professional Services	15,000	0	0
Actuarial Services	1,200	7,500	10,900
Education and Training	2,820	2,430	1,890
Furniture and Equipment	0	1,910	500
Management Fees	363,169	305,612	279,069
Service Contracts	17,625	16,785	15,225
Fiduciary Insurance	<u>4,176</u>	<u>4,845</u>	<u>4,015</u>
Sub Total	<u>581,466</u>	<u>514,948</u>	<u>480,608</u>
Total Disbursements	<u>\$8,028,204</u>	<u>\$7,962,368</u>	<u>\$7,659,312</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Investment Income Received From:			
Cash	\$364	\$525	\$756
Pooled or Mutual Funds	<u>1,891,113</u>	<u>1,825,027</u>	<u>1,702,655</u>
Total Investment Income	<u>1,891,476</u>	<u>1,825,552</u>	<u>1,703,411</u>
Plus:			
Realized Gains	3,049,518	1,474,905	1,737,724
Unrealized Gains	<u>7,840,850</u>	<u>7,731,977</u>	<u>5,485,907</u>
Sub Total	<u>10,890,368</u>	<u>9,206,881</u>	<u>7,223,631</u>
Less:			
Realized Loss	0	0	(31,341)
Unrealized Loss	<u>(3,505,464)</u>	<u>(3,557,968)</u>	<u>(8,733,496)</u>
Sub Total	<u>(3,505,464)</u>	<u>(3,557,968)</u>	<u>(8,764,836)</u>
Net Investment Income	<u>9,276,381</u>	<u>7,474,465</u>	<u>162,206</u>
Income Required:			
Annuity Savings Fund	17,306	12,140	38,701
Annuity Reserve Fund	161,015	172,774	177,743
Military Service Fund	48	31	55
Expense Fund	<u>581,466</u>	<u>514,948</u>	<u>480,608</u>
Total Income Required	<u>759,834</u>	<u>699,893</u>	<u>697,108</u>
Net Investment Income	<u>9,276,381</u>	<u>7,474,465</u>	<u>162,206</u>
Less: Total Income Required	<u>759,834</u>	<u>699,893</u>	<u>697,108</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$8,516,547</u>	<u>\$6,774,572</u>	<u>(\$534,902)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$168,352	0.2%
PRIT Cash Fund	130,041	0.2%
PRIT Core Fund	<u>69,531,856</u>	<u>99.6%</u>
Grand Total	<u>\$69,830,249</u>	<u>100.0%</u>

For the year ending December 31, 2013, the rate of return for the investments of the Stoneham Retirement System was 15.21%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Stoneham Retirement System averaged 11.96%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Stoneham Retirement System was 9.03%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Stoneham Retirement System voted on May 24, 2000 to invest all of the system's assets with the PRIT fund as of June 1, 2000. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Stoneham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board (increased to \$150,000 in 2014). This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Stoneham Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership

March 30, 2011 Any individual who is permanently employed twenty (20) or more hours per week by the Town of Stoneham or any of its departments, the Stoneham Housing Authority or the Stoneham Retirement Board shall become a member of the Stoneham Retirement System ("System"). In addition to the foregoing, any employee or elected official must earn at least \$5,000 per year in regular compensation to be eligible for membership in the System.

Installment Plan Any member who wishes to purchase past service rendered may do so through the Board's installment plan which requires that the member remit at least \$10 per week for a period not to exceed 5 years. Any amount owed by the member must be paid in full at the completion of the installment plan.

March 23, 2005

Any individual who is permanently employed by the Town of Stoneham or is permanently employed by any member unit of the Stoneham Retirement System for at least 20 hours per week shall immediately become a member of the Stoneham Retirement System. Individuals who are employed in a temporary capacity by any member unit of the Stoneham Retirement System for at least 20 hours per week for 6 consecutive months shall become members of the Stoneham Retirement System upon completion of said period.

March 23, 1995

Membership in the Stoneham Contributory Retirement System shall consist of all employees of the Town who are eligible under the General Laws Chapter 32 pertaining to such membership; including part-time and temporary employees when employment is definitely for a period of more than seven (7) days and who work a scheduled minimum of thirty (30) hours per week; school personnel (cafeteria workers, teacher aides, and the ten (10) month school secretaries) however, who work full time for the school year (10 months) are all given one year of creditable service for each school year that they work, but excluding evening school instructors, employees of the recreational programs under the Park Department, school employees who contract as coaches in school sports programs, teachers employed during summer months and teachers aides under a college co-op plan, police matrons , library pages,, traffic directors, Unicorn part-time temporary personnel including: (golf course/arena laborers, rink guards, cashiers) part-time cafeteria workers, and student engineers under a college co-op plan; and the retirement deduction for employees who are members, shall be made from the date of employment. The Superannuation Retirement Benefits of those members in the Stoneham Contributory Retirement System who only work part time for their entire working career, the creditable service will be calculated at their actual salary at the part time rate.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable Service

April 29, 2008: Effective July 1, 2008, the Stoneham Retirement Board ("Board") hereby incorporates by reference and amends its September 22, 2004 creditable service regulation as follows. Any member who is employed in a part-time capacity and has his or her hours temporarily increased from part-time to full-time will not have his or her part-time service prorated. Similarly, any member who is employed in a part-time capacity during his or her entire career with the Town of Stoneham and who either purchases past refunded service rendered in a full-time capacity or transfers into the Stoneham Retirement System with past full-time service rendered in another governmental unit and under the jurisdiction of another retirement board will continue to receive full credit for any part-time service rendered. A member who is employed in a part-time capacity and who purchases past refunded service rendered in a full-time capacity in the Town of Stoneham or a member unit of the Stoneham Retirement System shall have his or her part-time service prorated. The amount of creditable service granted for such prior refunded or full-time service rendered shall be determined by the retirement board which had jurisdiction over said service.

The existing provisions of the Board's September 22, 2004 regulation not inconsistent with this amendment remain in full force and effect.

September 24, 2004: Members of the Stoneham Retirement System who wish to purchase creditable service for past service rendered shall do so in the following manner:

- Members who previously rendered service and received a refund of said service, either from this Board or another retirement board under the jurisdiction of G.L. c. 32, are required to purchase the full amount of creditable service rendered, based on the amount withdrawn, together with regular interest. If said service was rendered under the jurisdiction of a retirement board other than this Board, it shall be the sole responsibility of the other retirement board to determine the amount of creditable service rendered, and what liability, if any, said board will accept pursuant to G.L. c. 32, § 3(8)(c). This Board will not accept liability for past refunded service rendered under the jurisdiction of another retirement board.
- Members who previously rendered service in the Town of Stoneham, and who were not eligible to participate in the Stoneham Retirement System, shall be eligible to purchase such past service rendered, in monthly increments, consistent with the provisions of M.G.L. c. 32, § 4(2)(b) and the Board's regulation regarding the calculation of creditable service, i.e. that a full week of creditable service will be based on the number of hours the position required, which are typically 30, 35, 37.5 or 40 hours per week.*

September 22, 2004: Members of the Stoneham Retirement System who are employed in the Stoneham Public Schools shall receive creditable service for service rendered consistent with this regulation in the following manner.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- For a member in service who is employed in a full-time capacity, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.
- For a member in service who is employed in a part-time capacity through his/her entire career, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.
- For a member in service who has been employed in both a full-time and part-time capacity, the member will receive full-time credit for full-time service, and prorated service for part-time service based on the full-time equivalency of the weekly hours required for the position, which are typically 30, 35, 37.5 or 40 hours per week.*
- For a member who is employed in a part-time capacity throughout his/her entire career, but who either purchases past refunded service, or who has transferred into the Stoneham Retirement System service rendered in a full-time capacity, the member's part-time position shall be prorated based on the full-time equivalency of the position. In the case of School Department employees whose full-time employment requires them to work for on or about September 1 to on or about June 30, including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service. Notwithstanding the foregoing, the Board recognizes that certain employees, including but not limited to certain secretaries and custodians, are required to work the entire calendar year, and in such a situation, said employees will receive one year's credit based on 12 months of employment, and partial year's credit based on a 12 month year.
- Creditable service for 10 month employees shall be calculated based on the equivalent of 1202.5 hours per year, whereas creditable service for 12 month employees shall be based on the equivalent of 1,566, 1,827, 1,957.5 or 2,088 hours per year depending upon the annual hours required for the position.*
- Any member who purchases past part-time service rendered shall have said service prorated based on 30, 35, 37.5 or 40 hours being considered a full week of service.*

* Effective April 30, 2013, the Stoneham Retirement Board ("Board") hereby incorporates by reference and amends its September 22, 2004 and September 24, 2004 creditable service regulations.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Regular Compensation

September 21, 2012: For any individual who becomes a member of the Stoneham Retirement System ("System") after the effective date of this regulation, creditable service rendered as a compensated elected official will be calculated pursuant to M.G.L. c. 32, § 4(2)(b) for each calendar year served and prorated for any portion thereof. as follows: Town Clerk and Selectman - full credit for actual time served; Individuals who were not eligible for membership in the System or who elected not to become members of the System but who become members of the system after the effective date of this regulation may receive creditable service for non-membership service consistent with this regulation upon remitting to the Board the contributions which would have been withheld from the regular compensation paid to the elected official at the time the service was rendered, together with buyback interest.

Travel Regulations

February 11, 2003: The Stoneham Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website at: <http://www.mass.gov/perac/03travelreg/stonehamtravelreg.html>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Ronald Florino

Appointed Member: Kathleen Sullivan Until a successor is appointed

Elected Member: John Scullin Term Expires: 12/16/2017

Elected Member: James McDermott, Jr. Term Expires: 12/16/2017

Appointed Member: Janice Houghton,
Chairperson Term Expires: 01/06/2018

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2014.

The actuarial liability for active members was	\$39,010,546
The actuarial liability for vested terminated members was	633,417
The actuarial liability for retired members was	<u>63,333,146</u>
The total actuarial liability was	\$102,977,109
System assets as of that date were	<u>66,425,894</u>
The unfunded actuarial liability was	<u>\$36,551,215</u>
 The ratio of system's assets to total actuarial liability was	 64.5%
As of that date the total covered employee payroll was	\$12,838,959

The normal cost for employees on that date was 9.0% of payroll

The normal cost for the employer was 5.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.875% per annum
 Rate of Salary Increase: 4.25% per annum, steps depending on group and years of service.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$66,425,894	\$102,977,109	\$36,551,215	64.5%	\$12,838,959	284.7%
1/1/2012	\$62,496,448	\$94,616,182	\$32,119,734	66.1%	\$11,623,693	276.3%
1/1/2011	\$63,751,707	\$90,519,644	\$26,767,937	70.4%	\$12,385,617	216.1%
1/1/2009	\$54,534,440	\$83,200,991	\$28,666,551	65.5%	\$11,799,977	242.9%
1/1/2007	\$54,605,288	\$80,019,236	\$25,413,948	68.2%	\$11,577,527	219.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	8	5	9	10	11	8	10	11	8	3
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	1	0	0	1	1	0	2	0	0
Total Retirements	8	6	9	10	12	9	10	13	8	3
Total Retirees, Beneficiaries and Survivors	303	291	290	292	291	292	290	290	289	280
Total Active Members	314	346	305	293	269	270	268	262	268	274
Pension Payments										
Superannuation	\$2,951,255	\$3,035,422	\$3,217,110	\$3,547,315	\$3,644,898	\$3,857,241	\$4,011,265	\$4,046,316	\$4,201,423	\$4,277,691
Survivor/Beneficiary Payments	219,950	227,888	231,429	247,060	291,992	291,574	329,937	331,578	358,001	354,553
Ordinary Disability	82,164	67,722	69,163	70,602	72,042	83,321	74,922	69,012	70,572	70,758
Accidental Disability	580,691	628,940	571,024	563,187	591,623	616,102	650,788	656,892	698,380	706,569
Other	454,267	480,949	527,457	574,964	564,386	564,116	646,307	791,241	809,823	819,315
Total Payments for Year	\$4,288,327	\$4,440,921	\$4,616,183	\$5,003,127	\$5,164,941	\$5,412,353	\$5,713,219	\$5,895,039	\$6,138,198	\$6,228,886

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